

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Shiawassee Area Transportation Agency</b>	County <b>Shiawassee</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>12/28/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

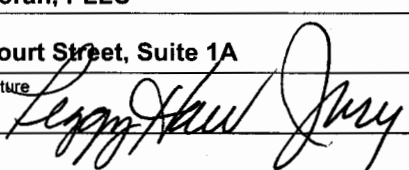
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Plante &amp; Moran, PLLC</b>			
Street Address <b>111 East Court Street, Suite 1A</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48502</b>	Date <b>3/6/06</b>

**Financial Statements**

**Shiawassee Area Transportation Agency  
Owosso, Michigan**

**September 30, 2005 and 2004**

***with Independent Auditors' Report***

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**Shiawassee Area Transportation Agency**

**Governing Committee and Administration**

**September 30, 2005**

**Governing Board**

Ronald Sukenik  
Robert Buschman  
Charles Spring  
Cameron Canute  
Leo Krupp  
Robert Bluedorn  
Susan Osika  
James Huguelet  
Chris Reha  
Donald Trap  
Jill Young

Caledonia Representative  
Corunna Representative  
Corunna Representative  
Durand Representative  
Durand Representative  
Owosso Representative  
Owosso Representative  
Perry Representative  
Perry Representative  
RES D Representative  
RES D Representative

**Administration**

Lawrence S. Alpert

Executive Director

*Independent Auditors' Report*

Board of Directors  
Shiawassee Area Transportation Agency  
180 North Delaney Road  
Owosso, Michigan 48867

We have audited the financial statements of the Shiawassee Area Transportation Agency (SATA), as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Shiawassee Area Transportation Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Shiawassee Area Transportation Agency as of September 30, 2004 were audited by BKR Dupuis & Ryden, whose report dated December 9, 2004 expressed an unqualified opinion on those statements. BKR Dupuis & Ryden subsequently merged into Plante & Moran, PLLC.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Area Transportation Agency at September 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements. The other accompanying financial information, listed as schedules in the table of contents, is also presented for the purposes of additional analysis and is not a required part of the financial statements of the Shiawassee Area Transportation Agency. The information in Schedules I through V and Schedule VIII have been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, are fairly presented in relation to the basic financial statements taken as a whole. The information in Schedule VI has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Plante & Moran PLLC*

December 28, 2005

## **Management's Discussion and Analysis**

As management of the Shiawassee Area Transportation Agency ("SATA"), we offer readers of SATA's basic financial statements this narrative overview and analysis of the financial activities of SATA for the years ended September 30, 2005 and 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

### **Overview of Financial Highlights**

- SATA has net assets of \$1.35 million. These net assets result from the difference between total assets of \$1.43 million and total liabilities of \$85 thousand.
- Current assets of \$356 thousand consist primarily of cash of \$176 thousand and receivables of \$170 thousand.
- Current liabilities of \$85 thousand primarily consist of construction payable of \$43 thousand and accounts payable of \$30 thousand.

### **Basic Financial Statements and Presentation**

The financial statements presented by SATA are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. SATA is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Statement of Net Assets presents information on all of SATA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of SATA is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how SATA's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal and state governments.

The Statement of Cash Flows allows financial statement users to assess SATA's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into three categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, and 3) Cash flows from capital and related financing activities.

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Financial Analysis of SATA

#### Condensed Summary of Net Assets

	<u>2005</u>	<u>2004</u>
Current assets	\$ 356,611	\$ 499,462
Capital assets (net of accumulated depreciation)	<u>1,075,861</u>	<u>956,464</u>
Total assets	<u>\$1,432,472</u>	<u>\$1,455,926</u>
Current liabilities	\$ 84,995	\$ 261,185
Non-current liabilities	-	-
Total liabilities	<u>\$ 84,995</u>	<u>\$ 261,185</u>
Net assets:		
Invested in capital assets	\$1,075,861	\$ 956,464
Unrestricted	<u>271,616</u>	<u>238,277</u>
Total net assets	<u>\$1,347,477</u>	<u>\$1,194,741</u>

The largest portion of SATA's net assets reflects investment in capital assets consisting of buses and operating facilities. SATA uses these capital assets to provide public transportation services for the Shiawassee County area.

#### Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
<b>Operating revenues (expenses)</b>		
Operating revenues	\$ 217,530	\$ 316,407
Operating expenses, excluding depreciation	(873,724)	(918,896)
Depreciation expense	<u>(163,963)</u>	<u>(114,992)</u>
Operating loss	<u>(820,157)</u>	<u>(717,481)</u>
<b>Non-operating revenues (expenses)</b>		
State grants and reimbursements	407,132	493,093
Federal grants and reimbursements	106,733	80,604
Contributed services	108,130	188,967
Local participation	67,001	-
Miscellaneous	<u>537</u>	<u>-</u>
Total non-operating revenues	<u>689,533</u>	<u>760,962</u>
Capital grant revenue	<u>283,360</u>	<u>763,962</u>
Increase in net assets during the year	152,736	807,145
Net assets, beginning of year	<u>1,194,741</u>	<u>387,596</u>
Net assets, end of year	<u>\$1,347,477</u>	<u>\$1,194,741</u>

## **Significant Capital Expenditures**

### **Transportation Facility**

SATA made a significant investment in the construction of the Transportation Facility during 2004 and 2005. The facility was constructed in conjunction with Shiawassee RESD.

## **Financial Operating Results**

### **Revenues**

Operating revenues are summarized into the following categories:

**Passenger Fares** – Farebox receipts and special transit fares are included here. The overall decrease over the previous year reflects the timing of purchases of punch passes.

**Contract Fares** – Fares from contractual agreements with various agencies and organizations. The overall increase from the previous year reflects additional grant funding available at the various agencies and organizations that SATA has agreements with.

**Advertising** – Fees derived from the contractual agreement to have advertisements on the buses are included here.

**State Operating Grants** – The Michigan Department of Transportation allocates grants for operating assistance based on expenses submitted by all Michigan transit agencies. Other specific grants are awarded as incentives to expand and enhance services to select clients.

**Contributed Services** – The value of these services would have to be paid for by SATA if not provided by contribution. The value of the services are recorded as revenues and expenses at their fair value.

### **Expenses**

**Labor and Fringe Benefits** – These personnel costs accounted for approximately 45% of all SATA's operating expenses (excluding depreciation) in 2005. This proportion is consistent with past years' experiences.

**Services** – This account consists of operating, maintenance, general, and administrative services.

**Materials and Supplies** – Fuel and fluids for all vehicles, in addition to the parts to maintain and repair the fleet account for the majority of this classification.

**Insurance** – During fiscal 2004, SATA switched from commercial coverage to partial self-insurance coverage for property and liability insurance through the Michigan Transit Pool.

### **Request for Information**

This financial report is designed to provide a general overview of SATA's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Larry Alpert, Executive Director, Shiawassee Area Transportation Agency, 180 N. Delaney St., Owosso, Michigan 48867.



**Shiawassee Area Transportation Agency**  
**Statements of Net Assets**  
**September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 175,682	\$ 33,571
Accounts receivable	84,491	112,621
Due from state government	71,869	299,944
Due from federal government	9,682	39,613
Inventory	620	-
Prepaid expenses and deposits	14,267	13,713
Total current assets	<u>356,611</u>	<u>499,462</u>
Capital assets:		
Land	15,233	15,233
Building	838,428	715,390
Revenue equipment	598,487	442,150
Maintenance and garage equipment	18,569	14,584
Furniture and fixtures	43,245	43,245
Total capital assets	1,513,962	1,230,602
Less accumulated depreciation	<u>(438,101)</u>	<u>(274,138)</u>
Capital assets - net	<u>1,075,861</u>	<u>956,464</u>
Total assets	<u><u>\$ 1,432,472</u></u>	<u><u>\$ 1,455,926</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 30,330	\$ 29,585
Construction payable	43,488	221,213
Accrued salaries and wages	7,153	5,490
Accrued other expenses	3,599	4,897
Deferred revenue	425	-
Total current liabilities	<u>84,995</u>	<u>261,185</u>
Total liabilities	<u>84,995</u>	<u>261,185</u>
Net assets:		
Invested in capital assets	1,075,861	956,464
Unrestricted	<u>271,616</u>	<u>238,277</u>
Total net assets	<u>1,347,477</u>	<u>1,194,741</u>
Total liabilities and net assets	<u><u>\$ 1,432,472</u></u>	<u><u>\$ 1,455,926</u></u>

*See notes to financial statements.*

**Shiawassee Area Transportation Agency**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended September 30, 2005 and 2004**

	2005	2004
Operating revenues:		
Passenger fares	\$ 56,344	\$ 62,740
Contract fares	152,575	247,029
Advertising	8,611	6,638
Total operating revenues	<u>217,530</u>	<u>316,407</u>
Operating expenses:		
Labor	389,241	366,480
Fringe benefits	101,004	80,855
Services	203,535	302,101
Materials and supplies	114,922	89,142
Utilities	11,810	4,873
Insurance	33,248	36,448
Miscellaneous	7,792	7,390
Leases and rentals	12,172	31,607
Total operating expenses excluding depreciation	<u>873,724</u>	<u>918,896</u>
Operating loss before depreciation expense	(656,194)	(602,489)
Depreciation expense	163,963	114,992
Operating loss	<u>(820,157)</u>	<u>(717,481)</u>
Non-operating revenues:		
State of Michigan operating grants:		
Formula operating assistance (Act 51) - current year	297,081	310,315
Formula operating assistance (Act 51) - prior year	180	-
Project Zero	40,026	110,228
Specialized services	66,300	72,550
Capital grants used for operations	2,597	-
Federal operating grants:		
Section 5311 operating assistance	93,112	77,357
RTAP	3,486	3,247
Capital grants used for operations	11,083	-
Local operating units:		
Local participation	67,001	-
Contributed services	108,130	186,967
Miscellaneous	537	-
Total non-operating revenues	<u>689,533</u>	<u>760,664</u>
Net income (loss) before capital grant revenue	<u>(130,624)</u>	<u>43,183</u>
Capital grant revenue:		
Federal	183,128	570,195
State	100,232	193,767
Total capital grant revenue	<u>283,360</u>	<u>763,962</u>
Increase in net assets	152,736	807,145
Net assets, beginning of the year	1,194,741	387,596
Net assets, end of the year	<u>\$ 1,347,477</u>	<u>\$ 1,194,741</u>

*See notes to financial statements.*

**Shiawassee Area Transportation Agency  
Statements of Cash Flows - Proprietary Fund Type  
For the Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 245,660	\$ 211,997
Cash payments to suppliers for goods and services	(376,782)	(362,000)
Cash payments to employees for services	(388,876)	(377,513)
	<u>(519,998)</u>	<u>(527,516)</u>
Net cash used in operating activities		
<b>Cash flows from capital and related financing activities:</b>		
Cash received from sale of leased asset	555	-
Cash received from capital grants	537,209	538,478
Additions to property and equipment	(461,086)	(542,803)
	<u>76,678</u>	<u>(4,325)</u>
Net cash provided by (used in) capital and related financing activities		
<b>Cash flows from non-capital financing activities:</b>		
Cash received from local participation	67,426	-
Cash received from non-operating grants	518,005	544,345
	<u>585,431</u>	<u>544,345</u>
Net cash provided by non-capital financing activities		
Net increase in cash	142,111	12,504
Cash at beginning of year	33,571	21,067
<b>Cash at end of year</b>	<u><u>\$ 175,682</u></u>	<u><u>\$ 33,571</u></u>
 <b>Reconciliation of operating income to net cash used in operating activities:</b>		
Operating loss	\$ (820,157)	\$ (717,481)
Adjustments to reconcile net loss to net cash used in operating activities:		
Contributed services	108,130	186,967
Depreciation expense	163,963	114,992
Changes in operating assets and liabilities:		
Receivables	28,130	(104,410)
Inventory	(620)	-
Prepaid expenses	(554)	6,678
Payables	745	(3,229)
Accrued salaries and wages	1,663	(10,813)
Other accrued expenses	(1,298)	(220)
	<u>300,159</u>	<u>189,965</u>
Total adjustments		
Net cash used in operating activities	<u><u>\$ (519,998)</u></u>	<u><u>\$ (527,516)</u></u>

*See notes to financial statements.*

**Shiawassee Area Transportation Agency**  
**Notes to Financial Statements**  
**September 30, 2005 and 2004**

**1. Summary of significant accounting policies**

The accounting policies of Shiawassee Area Transportation Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

**A. Reporting entity:**

The Shiawassee Area Transportation Agency (SATA) was created by an agreement dated October 1, 1999, by the cities of Corunna, Durand, Owosso, and Perry, and the Shiawassee Regional Education Service District (RES D) pursuant to the provisions of Public Act 7 of 1967 (extra session) as amended.

Under the agreement it was agreed:

1. Pursuant to the provision of the Act, SATA was established for the purpose of providing public transportation services in areas throughout Shiawassee County, including on-demand transportation and transport of public school students needing to reach community sites as part of their educational program.
2. A party to this agreement may withdraw from SATA after having provided written notice to the remaining parties to this agreement at least one year prior to the effective date of the withdrawal.
3. Additional public agencies may become parties to this agreement upon the adoption of a resolution approved by the governing body of the public agency and with the concurrence of the other public agencies that are parties to this agreement now or in the future. The resolution shall be in the form specified by SATA's board of directors.
4. SATA shall be governed by a board of directors comprised of not more than thirteen members.
  - a. Each of the governing bodies of the cities of Corunna, Durand, Owosso, and Perry and the Shiawassee Regional Education Service District shall appoint two members to the board of directors for three year overlapping terms in accordance with the following schedule:

Corunna representative	term expiring October 1, 2005
Durand representative	term expiring October 1, 2005
Owosso representative	term expiring October 1, 2006
RES D representative	term expiring October 1, 2006
Corunna representative	term expiring October 1, 2006
Perry representative	term expiring October 1, 2006
Durand representative	term expiring October 1, 2007
Owosso representative	term expiring October 1, 2007
RES D representative	term expiring October 1, 2007
Perry representative	term expiring October 1, 2007
Caledonia representative	term expiring October 1, 2007
  - b. Any public agency that shall become party to this agreement subsequent to its effective date shall appoint a single member to the board of directors. The board of directors shall determine the duration of the term of each member appointed pursuant to this subparagraph so as to equalize the number of terms expiring in any year. At such time as more than three additional public agencies have become parties to this agreement, the board of directors shall establish a schedule of rotating terms to fill the three board of director positions allocated to the additional public agencies.

**Shiawassee Area Transportation Agency**  
**Notes to Financial Statements**  
**September 30, 2005 and 2004**

**1. Summary of significant accounting policies – (continued)**

**A. Reporting entity: – (continued)**

**4. – (continued)**

- c. Whenever the total number of members appointed pursuant to subparagraphs a and b shall be an even number, the board of directors shall appoint a member-at-large. As additional public agencies become parties to this agreement and appoint members such that the total number of members appointed by public agencies is an odd number, the service of any member-at-large on the board of directors shall be terminated.

**Component units:**

“The Financial Reporting Entity”, as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations of SATA which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on SATA or for which SATA is financially accountable. The reporting entity of SATA consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, SATA is a jointly governed organization as detailed above. None of the participating governments appoints a majority of SATA’s board and none has an ongoing financial interest or responsibility. Many of the participating governments provided in-kind support to SATA during fiscal 2004 and 2005 (see note 9).

**B. Basis of accounting:**

The accounts of SATA, which are organized as an enterprise fund, are used to account for SATA’s activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, SATA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which SATA receives value without directly giving equal value in return, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to SATA on a reimbursement basis.

Pursuant to GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. SATA also has the option of following subsequent private-sector guidance, subject to this same limitation. SATA has elected not to follow subsequent private-sector guidance as it relates to its operations.

**Shiawassee Area Transportation Agency**  
**Notes to Financial Statements**  
**September 30, 2005 and 2004**

**1. Summary of significant accounting policies – (continued)**

**C. Cash investments:**

Investments are stated at cost, which approximates market. For purposes of the cash flows statement, all highly liquid short-term investments with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents. SATA had no investments at September 30, 2005 and 2004.

**D. Prepaid expenses:**

Prepaid expenses are payments made to vendors for services that will benefit periods beyond September 30, 2005 and 2004.

**E. Accounts receivable:**

SATA uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its accounts receivable balances with particular attention given to those accounts greater than 90 days old. Based on management's review, the balance as of September 30, 2005 and 2004 is considered collectible and accordingly, no provision for uncollectible accounts has been made.

**F. Capital assets:**

SATA defines capital assets as assets with an initial cost equal to or exceeding \$5,000 which has a useful life in excess of one year. Capital assets are stated at costs or fair value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Provisions for depreciation of capital assets are computed on the straight-line method. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building	20 years
Revenue equipment	5-12 years
Shop and garage equipment	3-10 years
Office equipment and furniture	4-10 years

Net assets – equity displayed in two components as follows:

Invested in capital assets, net of related debt – This consist of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted – This consists of net assets that are not legally restricted by outside parties or by law through constitutional provisions or enabling legislation, or do not meet the definition of “invested in capital assets, net of related debt”.

**Shiawassee Area Transportation Agency**  
**Notes to Financial Statements**  
**September 30, 2005 and 2004**

**1. Summary of significant accounting policies - (continued)**

**G. Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Classifications of revenues:**

SATA has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and rental revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property tax proceeds and most federal, state, and local grants and contracts.

**I. Recognition of revenue and receivables:**

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provide financial assistance and make grants directly to the Agency for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant, and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred.

**J. Federal and State operating assistance funds:**

Federal and State operating assistance funds to be received by SATA under the Urban Mass Transportation Act of 1964, as amended, and under the Michigan Public Mass Transportation Grant Program are recorded and reflected as income in the period to which they are applicable.

**K. Self-insurance liabilities and expense:**

SATA has a self-insurance program for general liability and property damage claims through the Michigan Transit Pool.

Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of SATA, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

**Shiawassee Area Transportation Agency  
Notes to Financial Statements  
September 30, 2005 and 2004**

**1. Summary of significant accounting policies - (continued)**

**L. Passenger fares:**

Passenger fares are recorded as revenue at the time services are performed or tickets are purchased.

**2. Cash and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

SATA has adopted an investment policy. Funds of the Shiawassee Area Transportation Agency will be invested in accordance with the Michigan Constitution and Public Act 55 of 1963 and Public Act 196 of 1997, in accordance with the following objectives: safety of principle, diversification, liquidity and return of investment. In accordance with Michigan Public Act 55 of 1963 and Public Act 196 of 1997, the surplus of funds of SATA may be invested as follows:

- Bonds, bills, or notes of the United States government; obligations, the principal and interest of which are fully guaranteed by the United States government; or obligations of the State
- Certificates of deposit issued by financial institutions which, means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch in Michigan under Michigan and Federal laws
- Commercial paper rated prime or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase
- Securities issued or guaranteed by agencies or instrumentalities of the United States government
- United States government or Federal agency obligation repurchase agreements
- Bankers' acceptances issued by a bank that is a member of the Federal deposit insurance corporation
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a government agency
- Investment pools, as authorized by surplus funds investment pool Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of the instruments that are legal for direct investment by a governmental agency

The purchase of the investments is to maximize the returns on SATA's surplus cash balances consistent with safety of those monies and with the desired liquidity of the investment.

Per the creation agreement, all funds received by SATA are to be deposited in a bank or other financial institution that maintains offices in Shiawassee County. SATA does not maintain a formal listing of these institutions however, SATA has only used one bank which consistently has met this criteria.



**Shiawassee Area Transportation Agency**  
**Notes to Financial Statements**  
**September 30, 2005 and 2004**

**2. Cash and investments**

SATA's cash is subject to risk, which is examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, that SATA's deposits may not be returned to it. SATA does not have a deposit policy for custodial credit risk. At year end, SATA had \$95,940 of bank deposits (checking accounts) that were uninsured and uncollateralized. SATA believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, SATA evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risks level are used as depositories.

**3. Capital assets**

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 15,233	\$ -	\$ -	\$ 15,233
Capital assets, being depreciated:				
Buildings	715,390	123,038	-	838,428
Revenue equipment	442,150	156,337	-	598,487
Maintenance and garage equipment	14,584	3,985	-	18,569
Office equipment and furniture	43,245	-	-	43,245
Total capital assets, being depreciated	<u>1,215,369</u>	<u>283,360</u>	<u>-</u>	<u>1,498,729</u>
Less accumulated depreciation:				
Buildings	5,961	36,795	-	42,756
Revenue equipment	231,291	116,163	-	347,454
Maintenance and garage equipment	1,638	4,293	-	5,931
Furniture and fixtures	35,248	6,712	-	41,960
Total accumulated depreciation	<u>274,138</u>	<u>163,963</u>	<u>-</u>	<u>438,101</u>
Total capital assets, being depreciated, net	<u>941,231</u>	<u>119,397</u>	<u>-</u>	<u>1,060,628</u>
Total capital assets, net	<u>\$ 956,464</u>	<u>\$119,397</u>	<u>\$ -0-</u>	<u>\$1,075,861</u>

When assets are withdrawn from public transportation service, the grantee must remit to the grantor, the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service; should an asset be sold by the grantee, the grantee must remit to the grantor, the grantor's pro-rata share of the proceeds less any amount specified as a service fee per the grant. However, if items of equipment have a current per-unit fair market value of less than \$5,000 the unit may be retained, sold, or otherwise disposed of with no further obligation to the grantor.

SATA has a fleet of twelve vehicles. Seven of these vehicles were purchased by SATA. The other vehicles were either donated to SATA or are under lease to SATA. Effective early in 2006, SATA was deeded the vehicles under lease.

**Shiawassee Area Transportation Agency  
Notes to Financial Statements  
September 30, 2005 and 2004**

**4. Line of credit**

SATA has a \$40,000 line of credit, due on demand, with an interest rate of prime. The line of credit is secured by all assets and collateralized by three vehicles. The amount due was \$-0- as of September 30, 2005 and 2004.

The prime rate at September 30, 2005 was 6.75%.

**5. Leases**

Operating leases:

SATA has an agreement with Shiawassee Council on Aging for lease of three vehicles, for the sum of \$12,172 and \$26,534 for 2005 and 2004, respectively. SATA is to maintain insurance on these vehicles.

**6. Deferred compensation plan**

SATA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. A trust was created for the plan assets, thereby insulating the assets from SATA's general creditors. SATA's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. The plan does not permit loans.

**7. Compensated absences**

Leave time – less than two years seniority:

Full-time employees with less than two years of seniority shall accrue paid leave time at the rate of 80 hours annually. Part-time employees with less than two years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 40 hours annually. Part-time employees whose regular work schedules are fewer than 20 hours per week shall not earn paid leave time.

Leave time – two or more years of seniority:

Full-time employees with two or more years of seniority shall accrue paid leave time at the rate of 120 hours annually. Part-time employees with two or more years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 60 hours annually.

Leave time accrual:

Leave time shall be accrued on a monthly basis. The rate of accrual shall be calculated by dividing the annual rate of accrual by 12. The maximum amount of leave time that may be accumulated and used for paid leave accrued shall be 200% of the annual rate at which leave time is earned.

Compensation for unused leave time:

Unused leave time in excess of the maximum accumulation shall be paid at the rate of 50% of the employee's regular hourly rate of pay. Said payment shall be made once per year on the last payroll of the fiscal year (September).

**Shiawassee Area Transportation Agency  
Notes to Financial Statements  
September 30, 2005 and 2004**

**8. Related party transactions**

The various parties to the SATA agreement provide in-kind services to SATA. SATA would have to pay for all services provided by the related parties. The value of these services has been recorded as revenue and expenses at their fair value as detailed below:

	<u>2005</u>	<u>2004</u>
City of Owosso – payroll processing and personnel consulting	\$ 7,237	\$ 6,297
Shiawassee Regional Education Service District (RESA) management and accounting assistance	66,912	54,803
	<u>\$ 74,149</u>	<u>\$ 61,100</u>

**9. Risk management**

The Shiawassee Area Transportation Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. SATA has purchased commercial insurance for property, boiler and machinery, crime, inland marine, public officials liability, employee dishonesty, workers compensation, and medical. SATA participates in the Michigan Transit Pool for claims relating to liability, no-fault and excess comprehensive coverage. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Transit Pool risk pool program operates as a claims – servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Premiums are paid annually to the pool that will be used to pay claims up to the SATA's retention limit. Pool members share proportionately in losses that exceed member retentions. The Michigan Transit Pool also operates as an insurance-purchasing pool for transit agencies in Michigan. The pool purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

The Michigan Transit Pool estimates the liability for auto and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported to the pool. The pool's fiscal year is December 1 – November 30. Since SATA joined the pool effective December 1, 2003, no adverse claim development costs were incurred during the fiscal year ended September 30, 2004.

**10. Contingencies/commitments**

SATA participates in federally assisted grant programs. The programs are subject to compliance audits. Under the Single Audit Act of 1984, compliance audit of federal grants was not required during the current year. The amount, if any, of expenditures which may be disallowed by the granting agency, cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

## **Supplementary Information**

**Shiawassee Area Transportation Agency**  
**Enterprise Fund**  
**Operating and Nonoperating Revenues**  
**For the Year Ended September 30, 2005**  
**With Comparative Totals for the Year Ended September 30, 2004**

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Passenger fares	\$ 56,344	\$ 62,740
Contract fares	152,575	247,029
Advertising	8,611	6,638
Miscellaneous	-	-
	<hr/>	<hr/>
Total operating revenues	<b>\$ 217,530</b>	<b>\$ 316,407</b>
	<hr/>	<hr/>
Nonoperating revenues:		
State of Michigan operating grants:		
Formula operating assistance (Act 51) - current year	\$ 297,081	\$ 310,315
Formula operating assistance (Act 51) - prior year	180	-
Project Zero	40,026	110,228
Specialized Services	66,300	72,550
Capital grants used for operations	2,597	-
Federal operating grants:		
Section 5311-current year	93,112	77,357
RTAP	3,486	3,247
Capital grants used for operations	11,083	-
Local operating grants:		
Contributed services	108,130	186,967
Local participation	67,001	-
Gain on sale of capital assets	537	-
	<hr/>	<hr/>
Total nonoperating revenues	<b>\$ 689,533</b>	<b>\$ 760,664</b>
	<hr/>	<hr/>

**Shiawassee Area Transportation Agency**  
**Enterprise Fund**  
**Operating Expenses**  
**For the Year Ended September 30, 2005**  
**With Comparative Totals for the Year Ended September 30, 2004**

	Operations	Maintenance	General Administration	2005 Total System	2004 Total System
Labor:					
Operator's salaries and wages	\$ 268,668	\$ -	\$ -	\$ 268,668	\$ 270,548
Other salaries and wages	-	30,063	46,052	76,115	52,255
Dispatcher's salaries and wages	44,458	-	-	44,458	43,677
Fringe benefits	82,856	12,226	5,922	101,004	80,855
Services:					
Advertising fees	-	-	1,754	1,754	2,430
Other services	93,247	17,912	90,622	201,781	299,671
Materials and supplies consumed:					
Fuel and lubricants	72,701	-	-	72,701	49,991
Tires and tubes	4,123	-	-	4,123	2,127
Other materials and supplies	5,811	19,217	13,070	38,098	37,024
Utilities	-	-	11,810	11,810	4,873
Casualty and liability costs:					
Premiums for public liability	31,146	-	-	31,146	35,651
Other insurance	-	-	2,102	2,102	797
Miscellaneous expense:					
Travel and meetings	2,216	630	2,784	5,630	5,002
Other miscellaneous expenses	(75)	-	2,237	2,162	2,388
Leases and rentals	12,172	-	-	12,172	31,607
Interest expense	-	-	-	-	-
Depreciation expense	-	-	163,963	163,963	114,992
Total expenses	\$ 617,323	\$ 80,048	\$ 340,316	\$ 1,037,687	\$ 1,033,888

**Shiawassee Area Transportation Agency**  
**Enterprise Fund**  
**Schedule of Expenses by Contract and General Operations**  
**For the Year Ended September 30, 2005**  
**With Comparative Totals for the Year Ended September 30, 2004**

	<b>Project Zero</b>	<b>Operations</b>	<b>Specialized Services</b>	<b>2005 Total System</b>	<b>2004 Total System</b>
Labor	\$ 19,742	\$ 369,499	\$ -	\$ 389,241	\$ 366,480
Fringe benefits	5,014	95,990	-	101,004	80,855
Services	6,681	130,554	66,300	203,535	302,101
Materials and supplies consumed	5,272	109,650	-	114,922	89,142
Utilities	590	11,220	-	11,810	4,873
Casualty and liability costs	1,817	31,431	-	33,248	36,448
Miscellaneous expense	287	7,505	-	7,792	7,390
Leases and rentals	623	11,549	-	12,172	31,607
Interest expense	-	-	-	-	-
Depreciation expense	-	163,963	-	163,963	114,992
<b>Total expenses</b>	<b>\$ 40,026</b>	<b>\$ 931,361</b>	<b>\$ 66,300</b>	<b>\$ 1,037,687</b>	<b>\$ 1,033,888</b>

**Shiawassee Area Transportation Agency  
Maximum Reimbursement Computation of  
State Bus Operating Assistance  
For the Year Ended September 30, 2005**

**State operating assistance**

## Operations expenses:

Labor	\$ 389,241
Fringe benefits	101,004
Services	203,535
Materials and supplies	114,922
Utilities	11,810
Casualty and liability costs	33,248
Miscellaneous expense	7,792
Leases and rentals	12,172
Depreciation expense	163,963
	<hr/>
Total operations expenses	1,037,687

## Less ineligible expenses:

Project Zero	40,026
Specialized services	66,300
RTAP	3,486
Capital grants used for operations	13,680
Depreciation expense	140,957
Advertising	286
Dues	59
	<hr/>
Total ineligible expenses	264,794

Net eligible expenses	<hr/> <hr/> \$ 772,893
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**State operating assistance**

Forecasted available resources (38.437574823% of eligible expenses)	\$ 297,081
State programmed receipts	297,081
	<hr/>
Project under payment	\$ 0

**Federal operating assistance**

Net State eligible expenses	\$ 772,893
Less: Ineligible audit fees	(6,360)
	<hr/>
Net Federal eligible expenses	\$ 766,533
	<hr/>
Section 5311 - 12.40% of net eligible Federal expenses	\$ 95,050
Federal programmed receipts	93,112
	<hr/>
Project under payment	(1) \$ 1,938

(1) Receivable was not recorded as the Federal expenses had a maximum reimbursement of \$93,112



**Shiawassee Area Transportation Agency  
Detail of Ineligible Items - State  
For the Year Ended September 30, 2005**

**DEPRECIATION AND AMORTIZATION**

Depreciation expense of public operations is ineligible according to UMTA C 9050.1, Page A-4 for all capital assets purchased from federal, state, or local funds. Amortization expense of assets purchased through capital leases which are being repaid from state and federal funds has also been included as an ineligible expense. For capital assets purchased from SATA's funds, depreciation is an eligible expense for state operating assistance purposes and amounted to \$140,957.

**MISCELLANEOUS**

The following expenditures are not eligible for operating assistance:

<u>Description</u>	<u>Amount</u>
Advertising	\$ 286
Dues	<u>59</u>
Total miscellaneous	<u>\$ 345</u>

SATA paid \$851 in connection with annual dues to the Michigan Public Transit Association. It has been determined that these organizations devote approximately 6.9 percent, of their activities to influencing legislation, which is not eligible for reimbursement according to OMB Circular A-87. The ineligible portion of dues paid amounted to \$59 for the year.

**Shiawassee Area Transportation Agency  
Vehicle Miles  
For the Years Ended September 30, 2005 and 2004  
(Unaudited)**

	<b>Public Transportation Mileage</b>	
	<u><b>2005</b></u>	<u><b>2004</b></u>
<u>Demand Response</u>		
First Quarter	<b>91,740</b>	90,404
Second Quarter	<b>91,433</b>	92,126
Third Quarter	<b>86,074</b>	92,257
Fourth Quarter	<b>81,867</b>	92,642
Total Operation	<u><b>351,114</b></u>	<u><b>367,429</b></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**Shiawassee Area Transportation Agency  
Schedule of Financial Assistance  
Federal and State  
For the Year Ended September 30, 2005**

	<u>Federal CFDA Number</u>	<u>Federal/State Project Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Transportation</u>			
Passed through State of Michigan			
Department of Transportation			
Federal Transit Capital Investment Grants	20.500	MI-03-0212 2002-0086Z13	\$ 48,543
Federal Transit Capital Investment Grants	20.500	MI-03-186 2002-0086Z5	292,370
Formula Grants other than Urbanized Areas	20.509 <sup>(2)</sup>	2001-0928/A1	30,530
Formula Grants other than Urbanized Areas	20.509	MI-18-X032 2002-0086Z4	31,250
Formula Grants other than Urbanized Areas	20.509	MI-18-X034 2002-0086Z9	84,920
Formula Grants other than Urbanized Areas	20.509	MI-18-X036 2002-0086Z14	468,750
Formula Grants other than Urbanized Areas	20.509	MI-03-X038 2002-0086Z18	31,250
Federal Transit Capital Investment Grants	20.500	MI-03-0226 2002-0086Z19	54,663
Michigan Department of Transportation: Project Zero – Capital Assistance	N/A	2002-0086Z11	<u>55,000</u>
Total capital assistance			<u>\$1,097,276</u>
<u>U.S. Department of Transportation</u>			
Passed through State of Michigan			
Section 5311 operating assistance based on operating expenses			
RTAP			
Total federal operating assistance			
Michigan Department of Transportation:			
State operating assistance based on operating expenses			
Project Zero			
Specialized Services			
Total State operating assistance			

<u>Federal Revenue Recognized This Period</u>	<u>State Revenue Recognized This Audit Period</u>	<u>Disbursements/ Expenditures During This Audit Period</u>	<u>Cumulative Disbursements/ Expenditures</u>	<u>Federal Amount Remaining</u>	<u>State Amount Remaining</u>
\$ -	\$ -	\$ -	\$ -	\$ 38,834	\$ 9,709
39,115	9,779	48,894	292,194	141	35
18,787	3,979	22,766	30,529	1	-
18,161	4,540	22,701	31,250	-	-
67,936	16,984	84,920	84,920	-	-
50,212	12,553	62,765	237,076	185,339	46,335
-	-	-	-	25,000	6,250
-	-	-	-	43,730	10,933
-	54,994	54,994	54,994	-	6
<u>\$194,211</u>	<u>\$102,829</u>	<u>\$297,040</u>	<u>\$730,963</u>	<u>\$293,045</u>	<u>\$ 73,268</u>

\$ 93,112  
3,486  
\$ 96,598

\$296,706  
 40,026  
66,300  
\$403,032

(continued)

**Shiawassee Area Transportation Agency  
Schedule of Financial Assistance  
Federal and State – (continued)  
For the Year Ended September 30, 2005**

**NOTES:**

- (1) Total award excludes local match of \$284.
- (2) Total award excludes local match of \$720.

February 14, 2006

Board of Directors  
Shiawassee Area Transportation Agency  
Owosso, MI

We have recently completed our audit of the financial statements of Shiawassee Area Transportation Agency for the year ended September 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Finance Committee, Board of Directors and others within the organization.

#### **Auditor's Responsibility under Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of Shiawassee Area Transportation Agency (SATA) in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Auditor's Responsibility for Testing and Reporting on Internal Controls**

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of the SATA's documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the SATA's internal control structure.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion.

Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the lives of fixed assets. We evaluated the lives used and feel that they are reasonable in relation to the financial statements taken as a whole.
- The majority of adjustments made had to do with capital grant revenue and receivables and fixed assets.

### **Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed.

Auditing standards also require us to inform the Board about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no unrecorded possible financial statement adjustments.

### **Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the SATA's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

### **Consultation with Other Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

In planning and performing our audit of the financial statements of SATA for the year ended September 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect SATA's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

### **2005 Comments and Recommendations**

#### **Capital Grants**

1. As SATA is awarded more and more grants, grant schedules must be maintained by grant and grant award category. These schedules need to detail billings, date billed, and any local match. The invoice or invoices to support the billing must be maintained with the billing.



2. During the year, capital grant expenditures and the related capital grant income were recorded on the general ledger in balance sheet accounts. By recording the capital activity in balance sheet accounts, these amounts were not selected in error as a part of the operating costs and revenues billings. However at year end, both the revenues and fixed assets should be grossed up and recorded in the proper asset and capital revenue accounts. The capital grant revenue should be reconciled to be sure that the amount billed can be reconciled to the fixed assets purchased.

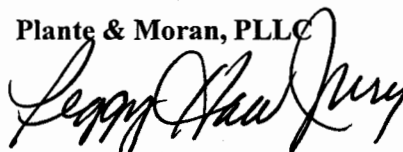
### Special Grants

Any special grants can also be netted in balance sheet accounts during the year, but should be grossed back up at year end. Those that were netted during the year that should be grossed up at year end include project zero and specialized.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Plante & Moran, PLLC



Peggy Haw Jury, CPA, CFE